



BlueOrchard Finance s.a.
Microfinance Investment Advisers

Approaches and operations of BlueOrchard Finance in Asia

Asian Development Bank, Manila, 14 & 15 March 2005

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BlueOrchard Finance : a specialized asset manager

- Microfinance : not charity, but provision of financial services to specific unattended segment of entrepreneurs (the working poor of the world);
- Our mission : to promote social and economic development through Microfinance by facilitating access to capital markets
- Our philosophy : there is no contradiction between social impact and commercial investments; Profitability is key to sustainability of impact, flows of funds growth and greater outreach
- Our company : A for-profit asset manager created in 2001, based in Geneva; a 10-person team exclusively focused on Microfinance; about \$100 million under management



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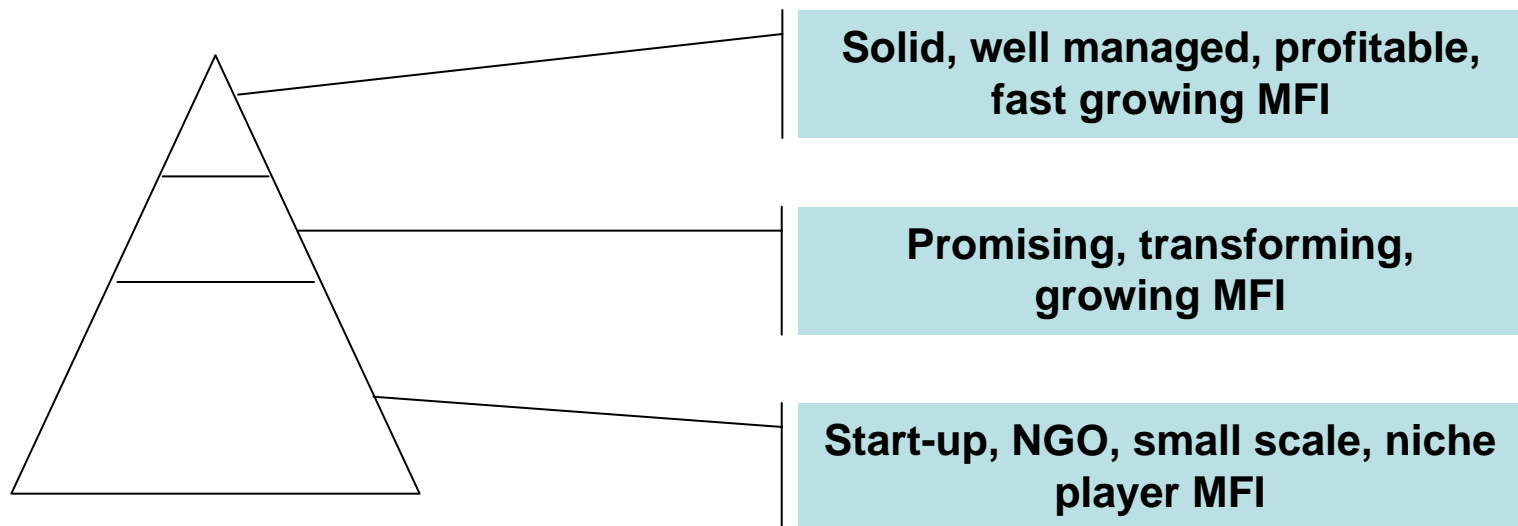
Trends in the MFI debt market

- Different needs for Microfinance institutions at different stages of development; leading MFI growing very fast, asking for longer-term funding and larger amounts
- Incipient direct entry of international commercial banks in the funding and operations of microfinance; new initiatives in international funding, increasingly from / with Microfinance networks
- Growing importance of local funding through savings collection, access to domestic commercial bank loans, local issues of commercial paper and/or creation of new domestic investment vehicles
- Increasing recognition that public subsidized money is not efficient when it comes to supporting the development of already strong financial intermediaries



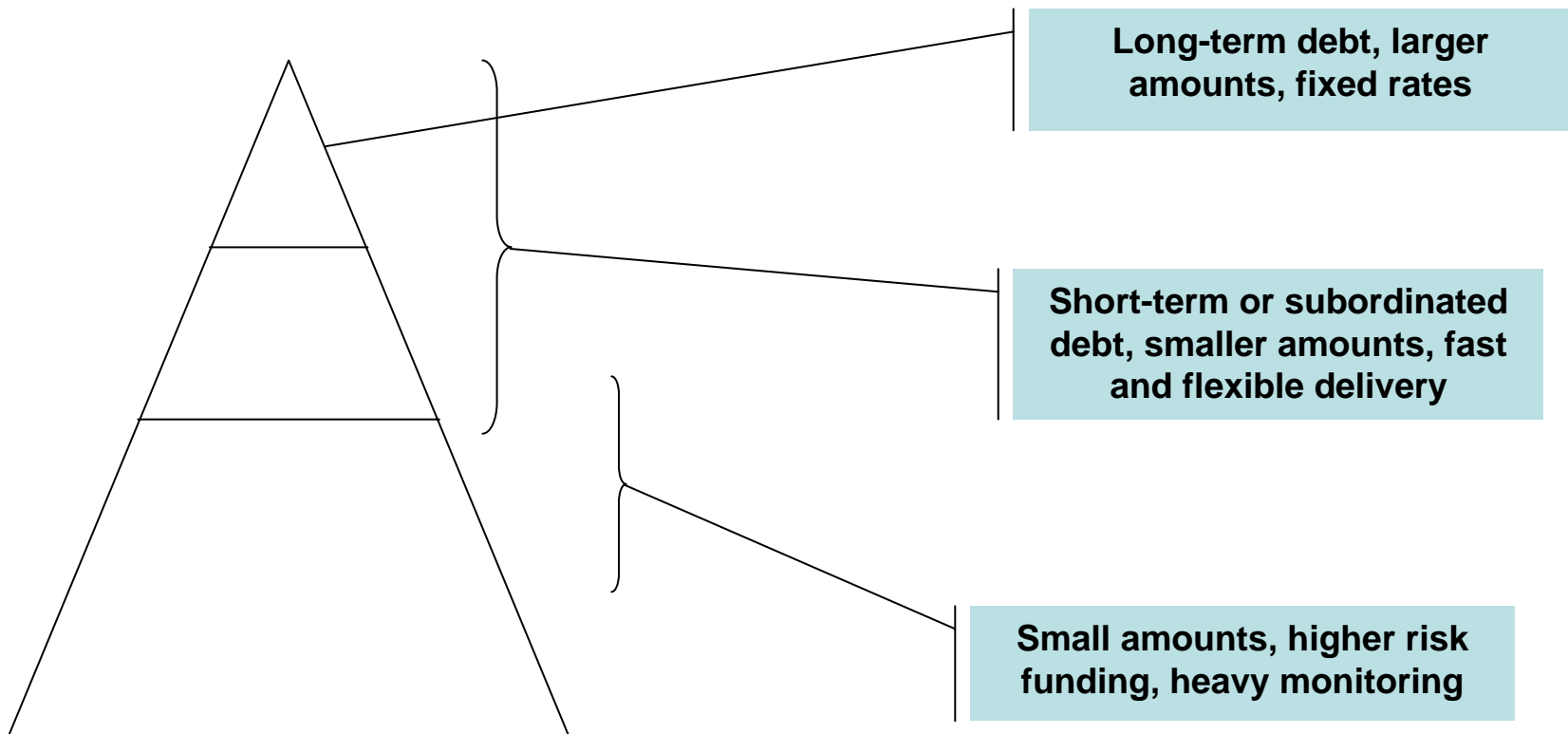
First trend : different segments of MFI

- Thousands of Microfinance institutions worldwide
- ~ 250 MFI well managed, profitable, fast growing – Tier 1
- Very large needs still uncovered





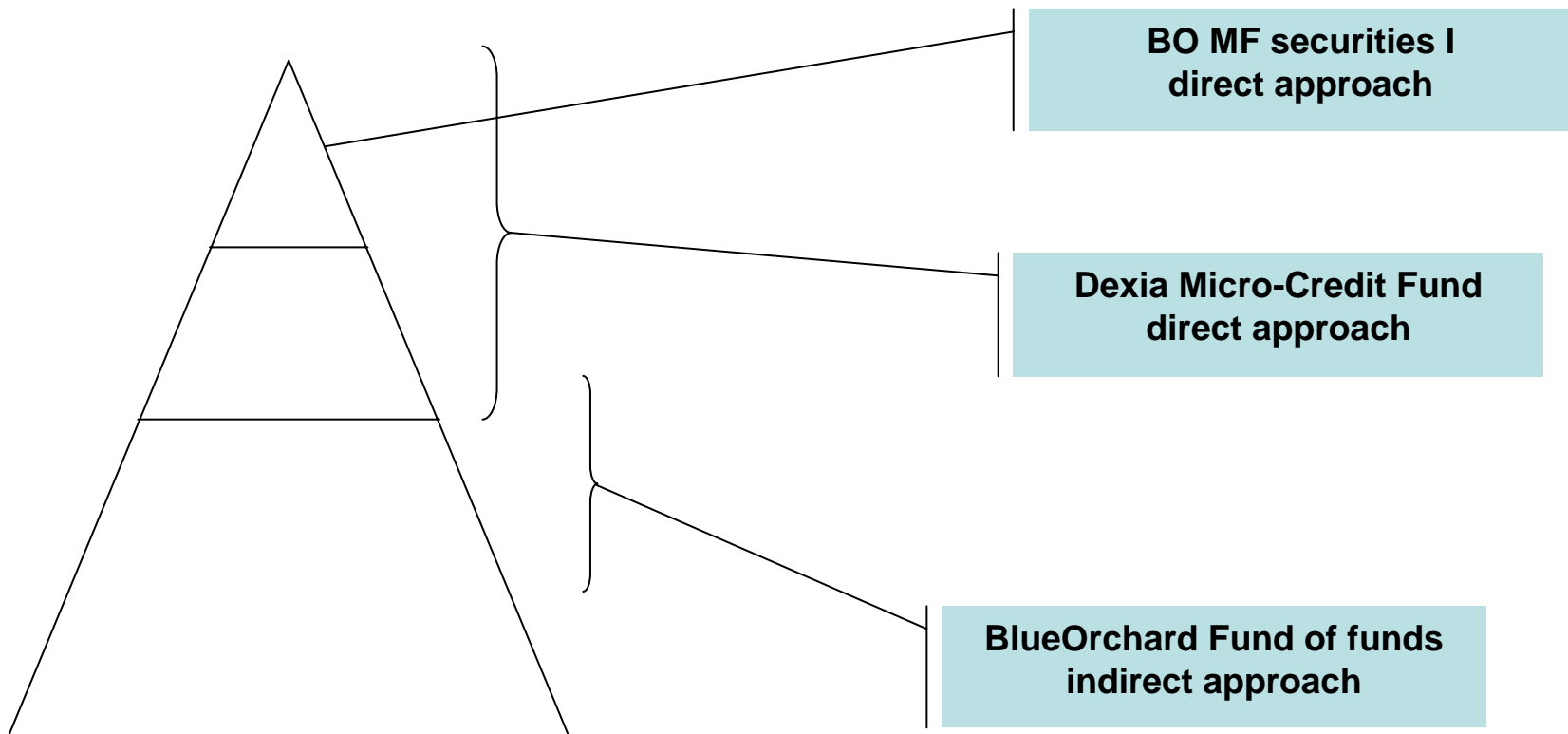
First trend : MFI with different needs





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BlueOrchard Finance – Our adapted product offering





BlueOrchard Finance – Our adapted product offering

Data as of February 2005

- **Dexia Micro-Credit Fund (Manager)**
 - Luxembourg SICAV part 2, launched in September 1998 by Dexia-BIL
 - Targeting leading and transforming MFI with short term debt (max. 3 years);
 - 6-year track record, over 215 loans made, no default, net USD return 32,9%
 - Total assets : \$ 58 millions, 50 IMF, 20 countries (6 in Asia)
 - Fast and flexible delivery of loans

- **BlueOrchard Microfinance Securities I, LLC (Manager)**
 - Delaware (USA) Special Purpose Vehicle
 - Targeting the best MFI worldwide with 7-year debt at fixed rate
 - First securitization of portfolio of international loans to MFI
 - Total assets (1st closing) : \$ 40 millions, 9 IMF, 7 countries (1 in Asia)
 - Total new assets expected (2nd closing) : \$ 50 millions, 14 MFI, 7 countries
 - In collaboration with OPIC and JPMorgan securities / Chase



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BlueOrchard Finance – Our adapted product offering

Data as of February 2005

- **ResponsAbility Global Microfinance Fund** (Main partner)
 - Luxembourg registered FCP
 - Different debt segments
 - Total assets : \$ 10 millions, Debt : 17 IMF, 11 countries
 - Fund sponsor : Crédit Suisse Bank
 - Asia : 3 countries, 22.5% of portfolio



Some key bottlenecks to faster growth

- **Restrictive regulations / legal issues**

- Unclear status of MFI (constraints – access to international funding)
- Prohibitive reservation policy because of international fund format
- High taxes on interest income earned by investment fund

- **Foreign exchange risk**

- Prohibits major entry in entire regions (Asia)
- Lack of instruments on commercial markets
- When hedging opportunities exist, very expensive
- We need alliance with major financial player or alternative mechanism



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Microfinance debt for the commercial investors

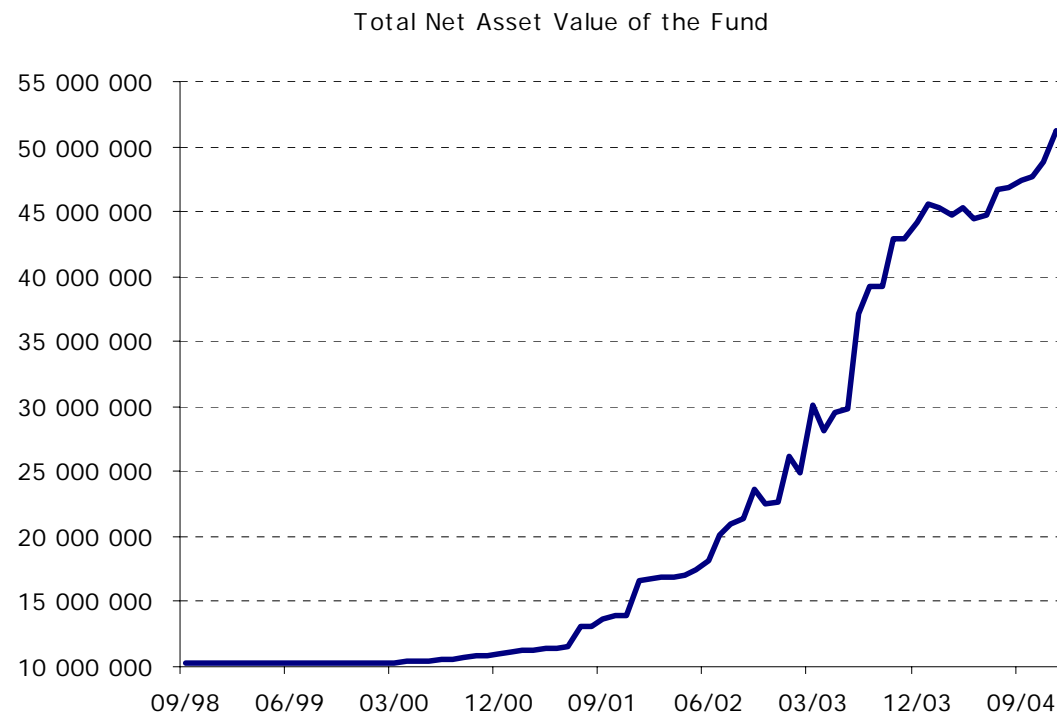
The birth of a new asset class

- attractive to both institutional and individual investors
- unique combination of social and financial returns within same product
- very high and effective social impact
- appealing financial risk – return profile
- limited credit risk
- Some insulation of microfinance sector from macroeconomic shocks
- low correlation with other asset classes in portfolio
- low volatility of financial returns
- attractive fast growing industry



Dexia Micro-Credit Fund : AUM (February 2005)

- Only private investors (individual and institutional)
- Very few historical redemptions (long average holding period)
- Increased interest from large institutional investors (pension funds)

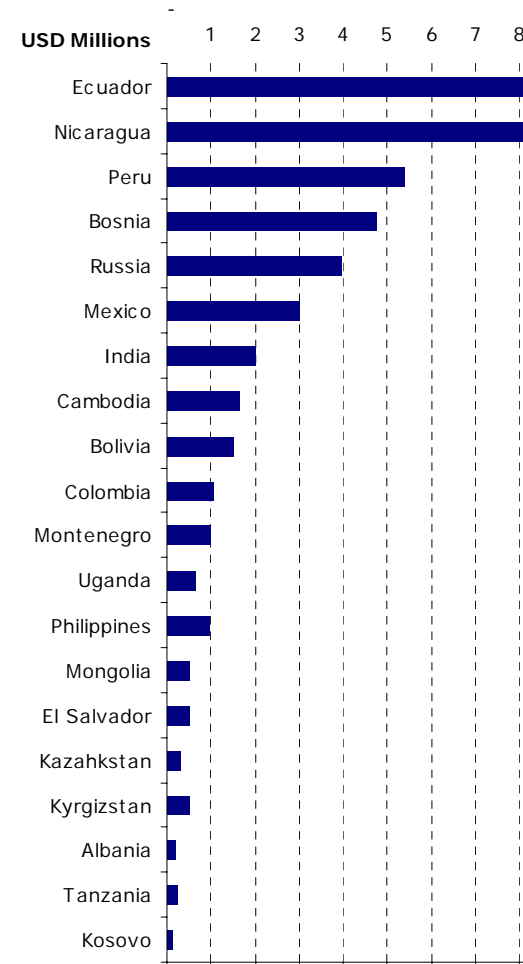
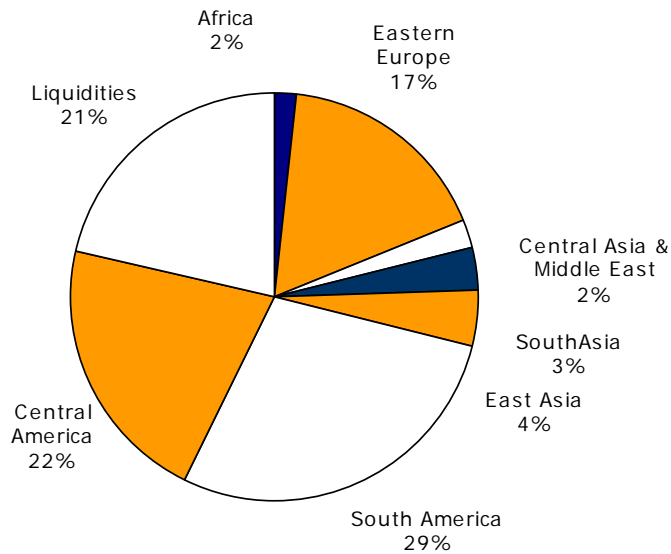




Dexia Micro-Credit Fund : portfolio (February 2005)

Geographic diversification

Asia : 6 countries – 10% of total portfolio



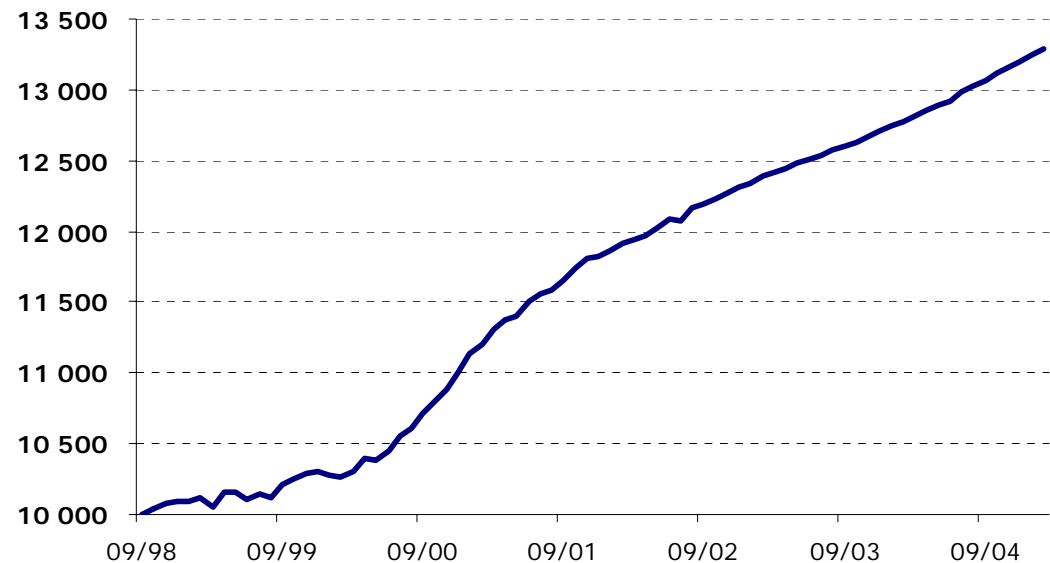


Dexia Micro-Credit Fund : the track record (February 2005)

- Net return of \$Libor + 2% delivered each of the past 5 years
- Very low volatility of financial returns
- No correlation with other asset classes
- Good liquidity (monthly) at no cost

USD Asset Class

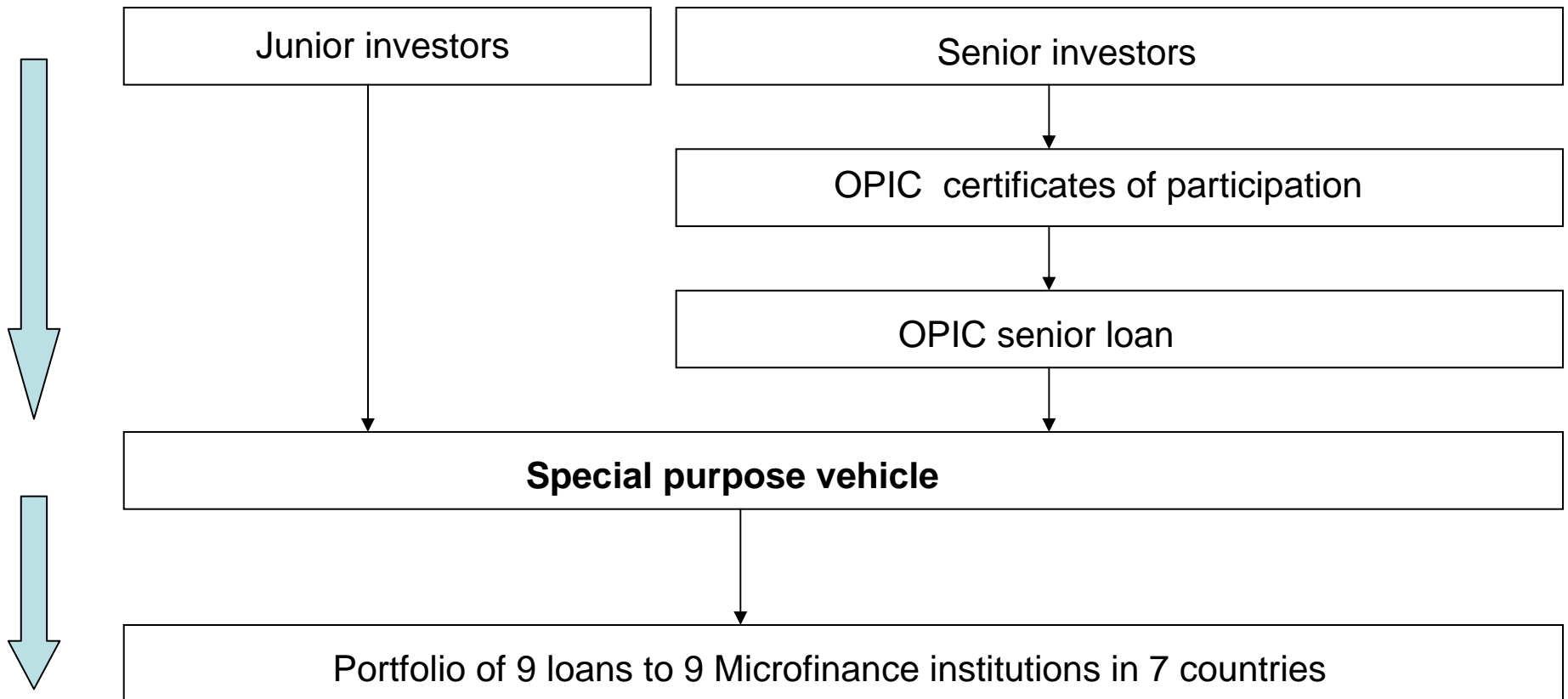
•Net Asset Value	22,833,472.6 USD
•Share price	13,293.2 USD
•Creation date	09/1998
•Cumulated return	32.85%
•2000 ROI	7.77%
•2001 ROI	6.78%
•2002 ROI	4.10%
•2003 ROI	3.21%
•2004 ROI	3.95%
•2005 ROI (YTD)	0.32%
•Last month	0.32%



— Share Price USD



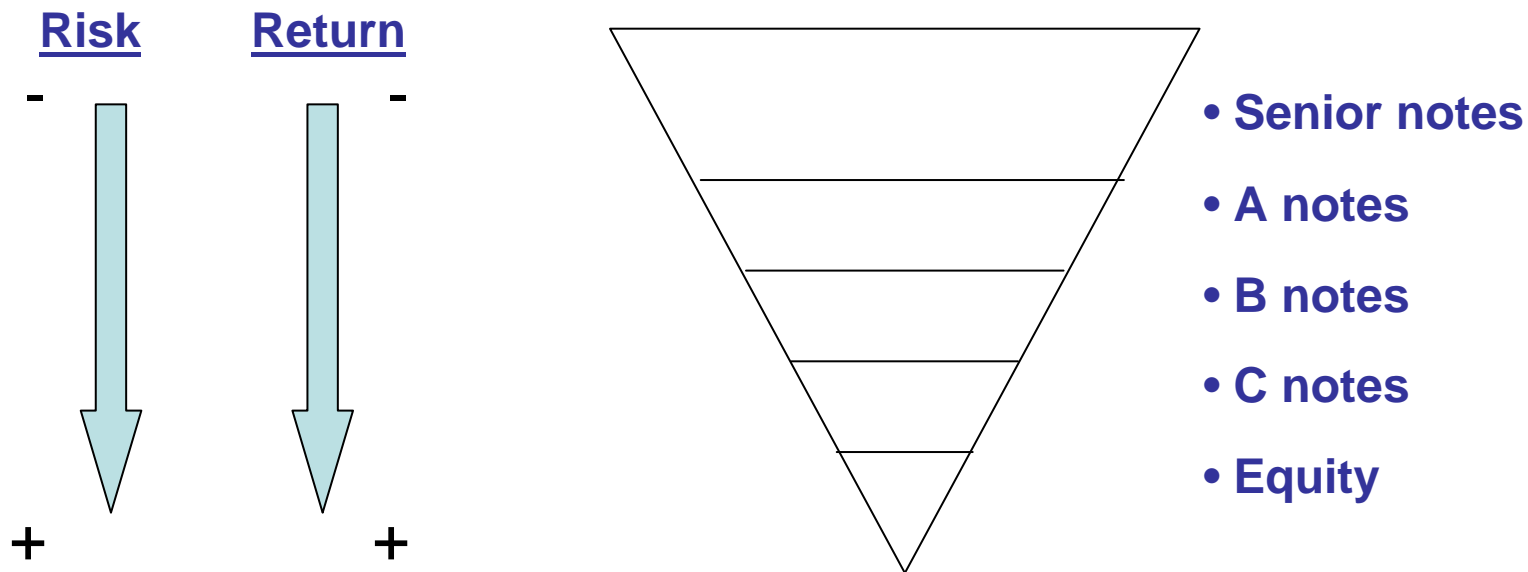
The CDO structure : BlueOrchard Microfinance Securities I, LLC





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- Investors in different sections
- Each section with different risk – return profiles
- Sections subordinated to each other - waterfall

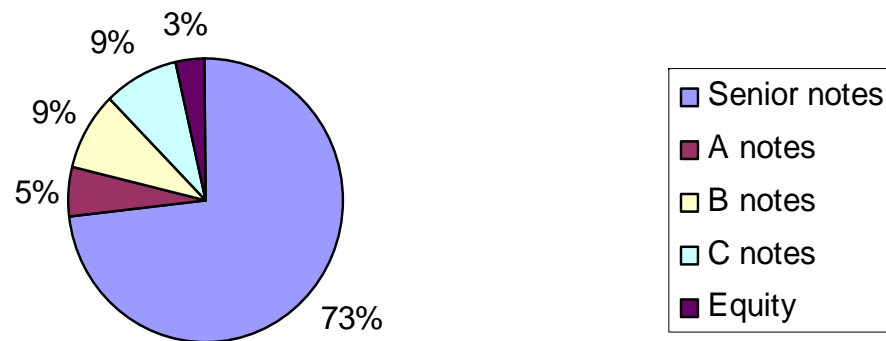




The CDO partners – Investors

- Over 50 private investors for a total of USD 40 millions
- Foundations, Individuals, funds, commercial banks
- Large US pension fund interested in second closing
- Interest rates fixed at closing as 6-year T-Notes + premium

Equity and Liabilities



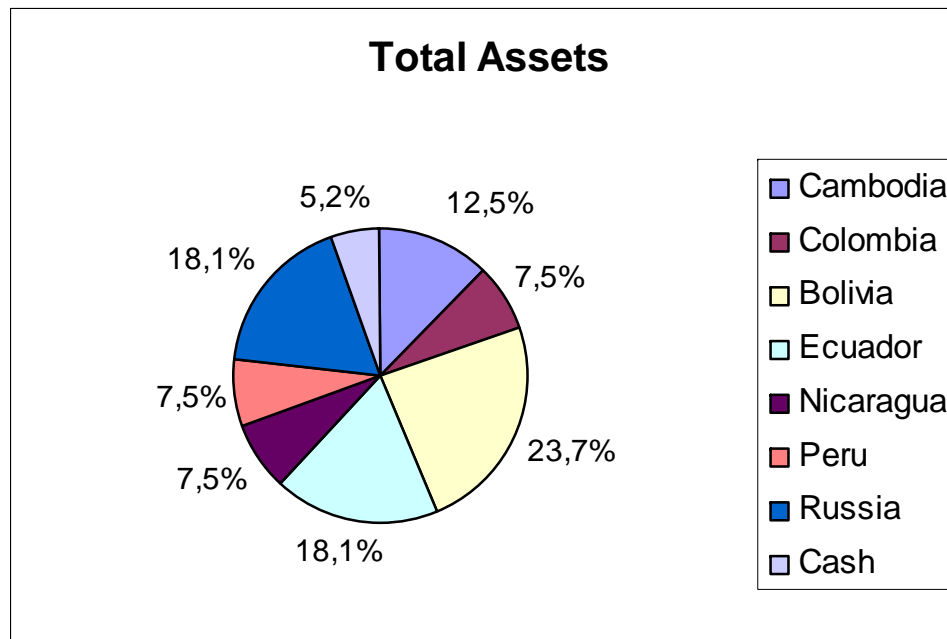
Average interest rates

Senior notes	4,5%
A notes	5,0%
B notes	6,2%
C notes	8,7%



The CDO partners – The MFI

- 9 loans to 9 MFI in 7 countries, total USD 38 millions
- Asia : 12,5% of total portfolio
- 7-year loans at average 8,5% fixed annual interest rate
- No guarantees required, amortization over last 2 years





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Advantages for the MFI

- Secure long term funding in large amounts at fixed rates
- Open up access to future rounds of similar funding
- Diversify sources of funding
- Acquire new funding technique and skills
- Demonstrate capacity to meet K markets requirements
- Get additional visibility and exposure to new investors' set



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BlueOrchard and the other trends in the MFI market - 1

- Entry of international commercial banks and new initiatives in international funding, increasingly with / from Microfinance networks
 - BlueOrchard offering advisory or asset management services to would-be new entrants in the microfinance debt investment area; BlueOrchard always keen to enter in new alliances with leading commercial banks
 - BlueOrchard Finance as co-investor with other commercial investors in some specific deals with selected microfinance institutions; close working relationship with MFI local and international networks desired and encouraged



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BlueOrchard and the other trends in the MFI market - 2

- Growing importance of local funding through savings collection, access to domestic commercial bank loans, local issues of commercial paper and/or creation of new domestic investment vehicles
 - BlueOrchard is currently developing with a private bank a new investment concept : an international fund of local microfinance funds (use local knowledge, target smaller size MFI, further broaden product range)
 - BlueOrchard could work with domestic commercial banks willing to securitize internationally their microfinance loan portfolio or could offer them loan portfolio selection and monitoring services.
 - BlueOrchard will make every effort to develop local currency investment vehicles or hedging mechanisms for its existing products in order to be able to lend in local currency and/or acquire locally issued commercial paper (should especially help BlueOrchard for widening and deepening coverage of Asia)

BlueOrchard and the other trends in the MFI market - 3

- Increasing recognition that public subsidized money is not efficient when it comes to supporting the development of the already strong financial intermediaries
 - ⇒ Public agencies should concentrate on building supportive environment for commercial Microfinance and should target subsidies either at market infrastructure developments, institutional building of transforming MFI or at non profitable MFI operating in difficult environments
 - ⇒ In the area of microfinance investments, public agencies could focus on products or parts of structured finance products with higher risk content or needing some sort of compensation for market imperfection, thereby acting as a catalyst for private commercial money.
 - ⇒ Note that public agencies willing to encourage the development of private fund management businesses in the field of microfinance could also entrust private fund managers with the servicing of their outstanding loan portfolios, thereby helping private actors to quickly reach economies of scale and avoiding their crowding out



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